

Message Text

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TAGS: ETRD, EEWT, ENRG, UR, JA

SUBJECT: EL PASO LNG ON TRILATERAL MEETING IN PARIS

REF: (A) TOKYO 4674, (B) STATE 56959, (C) MOSCOW 3506, (D)
TOKYO 4216

1. IMPRESSION OF EL PASO LNG VICE PRESIDENT JAMES LISTER
FOLLOWING MEETING IN PARIS OF AMERICAN, JAPANESE, AND
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SOVIET PARTICIPANTS IN YAKUTSK LNG PROJECT SUPPLEMENTS
TOKYO REPORT REF A. LISTER FELT MEETING WENT WELL, WITH
SOVIETS REPORTING CONFIRMATION OF TWO-THIRDS OF NECESSARY
RESERVES AND ANNOUNCING THAT THEY PLAN PURCHASES TOTALLING
ABOUT \$36 MILLION IN U.S. IN SUPPORT OF EXPLORATION PHASE.
THREE PARTIES PLAN TO BEGIN NEGOTIATIONS ON DEVELOPMENT
PHASE AT AUGUST MEETING.

2. IN CONVERSATION WITH J. MISHELL GEORGE OF USDOC/BEWT AT COLUMBIA/HARVARD ARDEN HOUSE CONFERENCE APRIL 1, LISTER SAID HE BELIEVES SOVIETS HAVE CLEARLY MADE DECISION TO GO AHEAD WITH YAKUTSK, ALTHOUGH NOT PRECIPITATELY, IN ORDER TO EMPLOY U.S. TECHNOLOGY IN PROJECT, DELIVER GAS TO SOVIET FAR EAST INDUSTRY, AND INCREASE HARD CURRENCY EARNINGS.

3. SOVIETS REPORTED HAVING PROVEN 700 BILLION CUBIC METERS OF GAS RESERVES, CALCULATED AT 85 RECOVERY RATES. THEY HAVE FULLY RECOGNIZED RIGHT OF EL PASO AND JAPANESE TO EXAMINE DATA AND SCHEDULE FOR EXAMINATION EXPECTED TO BE ARRANGED AT AUGUST MEETING. LISTER BELIEVES SIDES ARE NOT TOO FAR APART ON PRICING CONCEPT FOR LNG. EL PASO CONCEPT INVOLVES SETTING PRICE TO U.S. AND JAPANESE PARTICIPANTS INDEXED TO COMPARABLE FUEL IN EACH COUNTRY, PROBABLY NUMBER 2 FUEL OIL IN U.S. U.S. AND JAPANESE COMPANIES ARE TO HAVE RIGHT OF FIRST REFUSAL ON ANY YAKUTSK GAS PRODUCED FOR EXPORT IN EXCESS OF GUARANTEED LEVELS OF SHIPMENTS TO U.S. AND JAPAN.

4. IN RESPONSE TO QUERY BY REPORTING OFFICER AS TO WHAT PORTION OF PROJECT WILL BE DEVOTED TO SOVIET DOMESTIC ENERGY NEEDS, LISTER SAID PARTIES CURRENTLY ENVISION PIPELINE DESIGNED WITH CAPACITY TO SUPPLY LIQUEFACTION FACILITIES WITH GAS FOR EXPORT TO JAPAN AND U.S. PLUS AMOUNT EQUIVALENT TO ABOUT 10 OF PIPELINE CAPACITY FOR SOVIET CONSUMERS ALONG ROUTE. (PIPELINE COULD BE EXPANDED BY PROCESS CALLED LOOPING, WHEREBY PARALLEL

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SECTIONS OF PIPE ARE ADDED.)

5. AT AUGUST MEETING THREE SIDES PLAN PRELIMINARY NEGOTIATIONS ON DEVELOPMENT PHASE, INCLUDING PRICING AND STIPULATION OF CONDITIONS NECESSARY FOR AGREEMENT TO TAKE EFFECT. THESE CONDITIONS WILL INCLUDE U.S. GOVERNMENT APPROVAL AND ARRANGEMENT OF FINANCING. ACCORDING TO LISTER, CRUX OF MATTER FOR JAPANESE AND SOVIETS IS FINANCING. IF PARTIES WERE FORCED TO GO TO EUROPE FOR FINANCING JAPANESE WOULD BE TROUBLED SINCE THEY WANT USG SUPPORT FOR PROJECT AND FEEL THIS MEANS FINANCING. LISTER FEELS SOVIETS ARE MORE FLEXIBLE REGARDING THE SOURCES OF FINANCING.

6. COMMENT. SINCE INITIATION OF DEVELOPMENT STAGE IS SOME TIME AWAY, WITH LNG IMPORTS NOT BEGINNING UNTIL AT LEAST MID-1980'S, FIRMS APPARENTLY HOPE TO KEEP PROJECT IN MOTION UNTIL CLIMATE OF U.S.-U.S.S.R. RELATIONS IMPROVES. IF U.S. EXIMBANK CREDITS REMAIN UNAVAILABLE,

THEY APPARENTLY INTEND TO TRY TO ARRANGE FINANCING ABROAD,
OBTAIN U.S. GOVERNMENT APPROVAL, AND CONVINCE JAPANESE
THAT SUCH APPROVAL IS SUFFICIENT WITHOUT FINANCING.
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